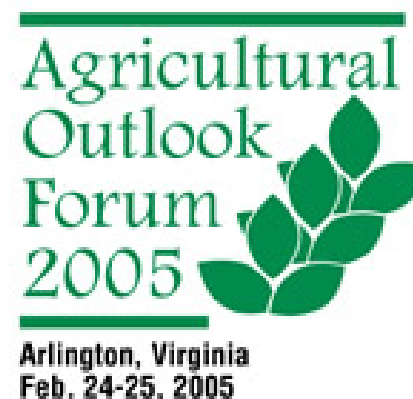


# Succession Decisions and Retirement Income of Farm Households

Ashok Mishra

Hisham El-Osta

James Johnson



# Background

---



## ► Population is aging

- Concerns about comfortable retirement
- However, declining individual saving rate, increased cost of health care may result in a lower standard of living.

## ► Farm families do little formal planning or investing specifically for retirement.

- Amount of wealth at stake is substantial for most farm families.
- Farm households' average net worth in 2001 was \$545,869 compared to \$395,500 for nonfarm households.

## ► Income for retirement is an issue that is being debated and receives attention from all sectors of the economy.

# Objective

---



- ▶ Given the importance of succession and financial well-being of farm households in later life:

The purpose of this presentation is to describe selected characteristics of the operators, their households, and their financial status related to:

- ⊕ Retirement status and planning
- ⊕ Designation of a successor to the farm
- ⊕ Selection of a successor who is a family member
- ⊕ Involvement of the successor in decisionmaking and management activities.
- ⊕ Income and wealth of retiring farm households

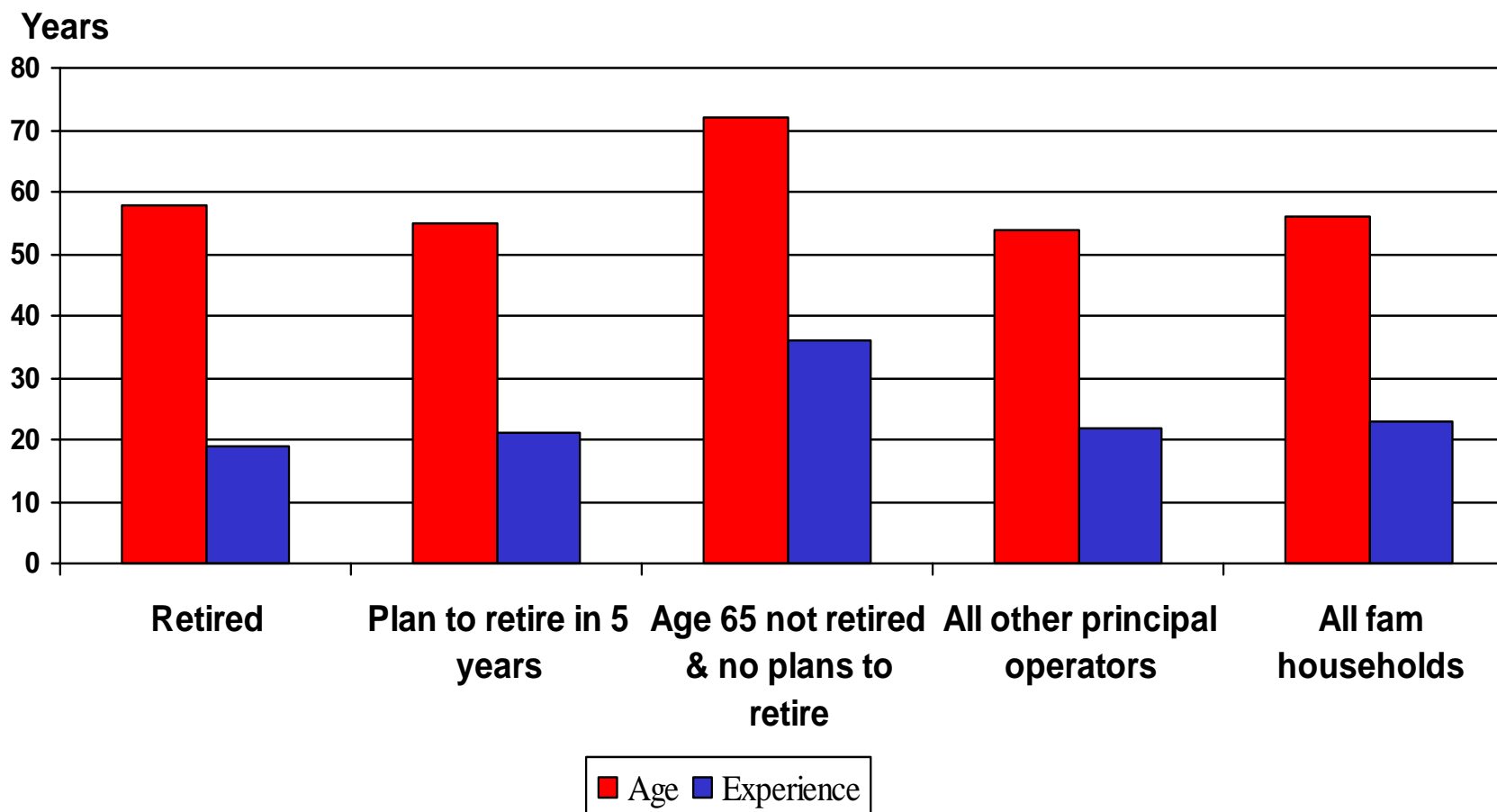


- 2001 and 2003 Agricultural Resource Management Survey (ARMS).
- ARMS is a national farm-level data survey of approximately 10,000 farm households.
- As a special focus on retirement and succession, the 2001 and 2003 ARMS queried farm households on their retirement decisions and succession plans.

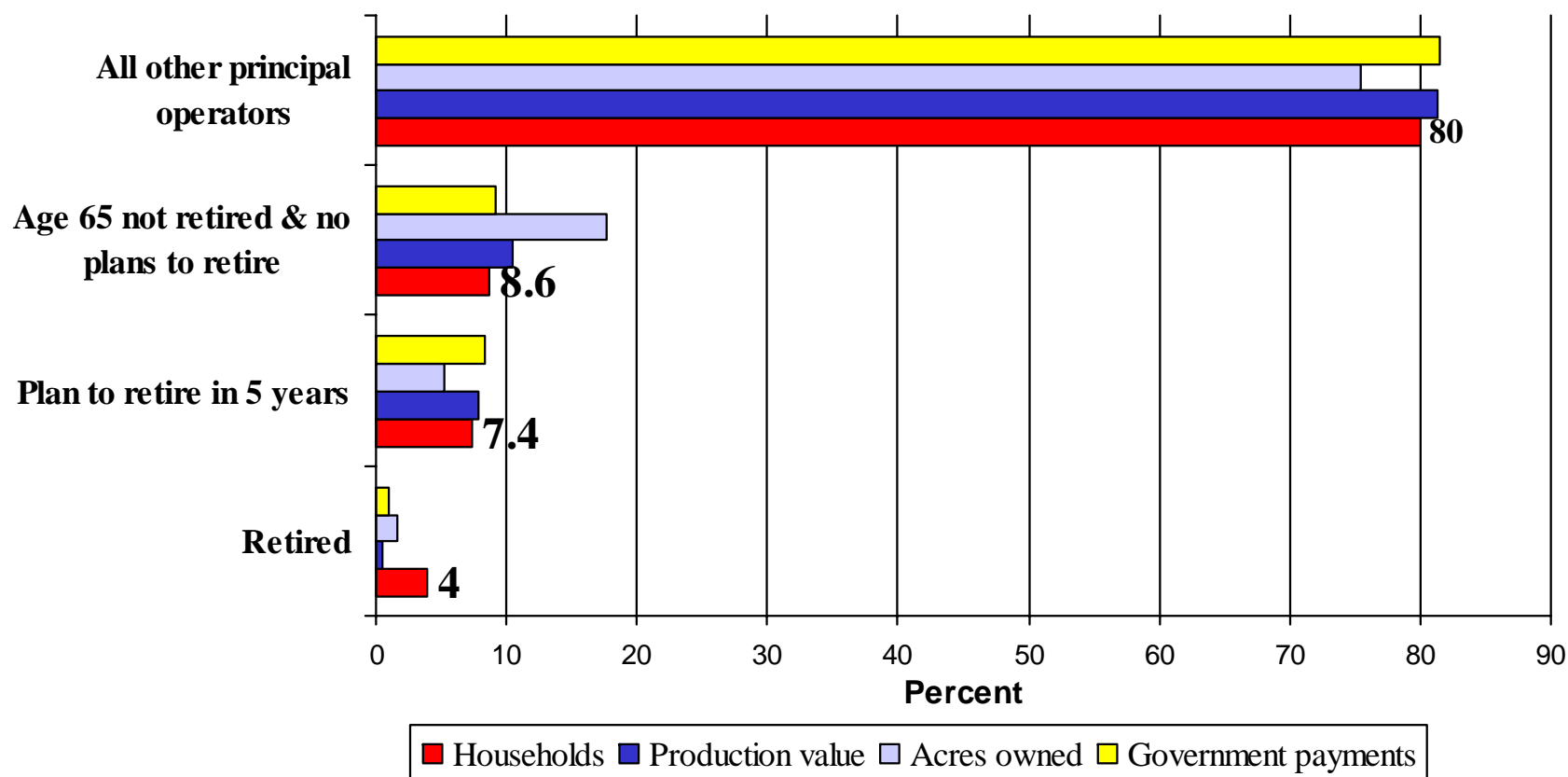
Using the 2003 ARMS, farm operators have been classified into four categories:

- First-indicate that they are already retired (app. 4%).
- Second-retirement in the next five years (about 7%).
- Third-age 65 or older not retired nor plan to retire (9%).
- Finally, the largest category (80 percent of households), consists of all other principal farm operators.

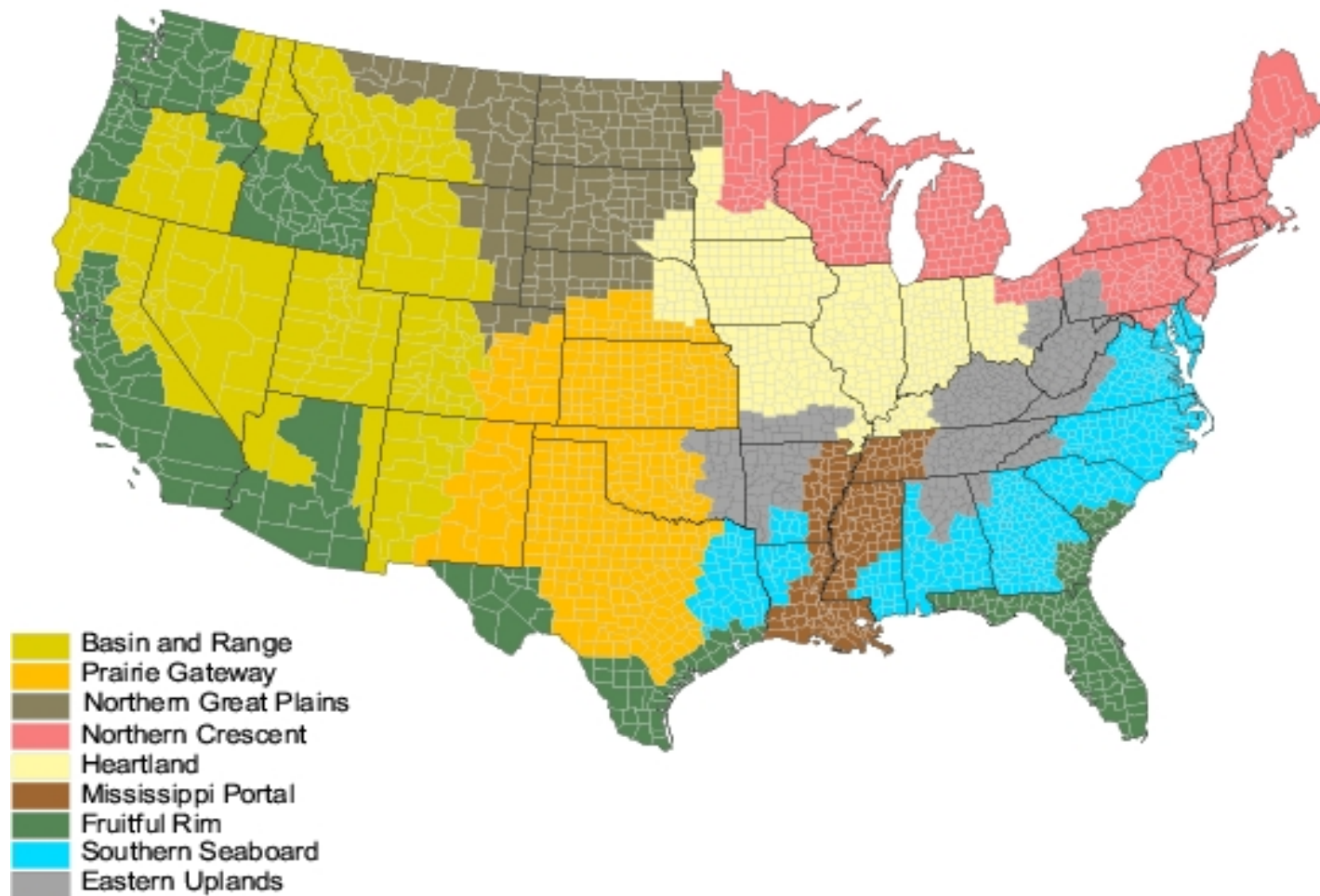
# Retiring and retired farm households are similar to all farm households in age and farm experience



# Retiring and retired farm households have a significant presence in the farming community

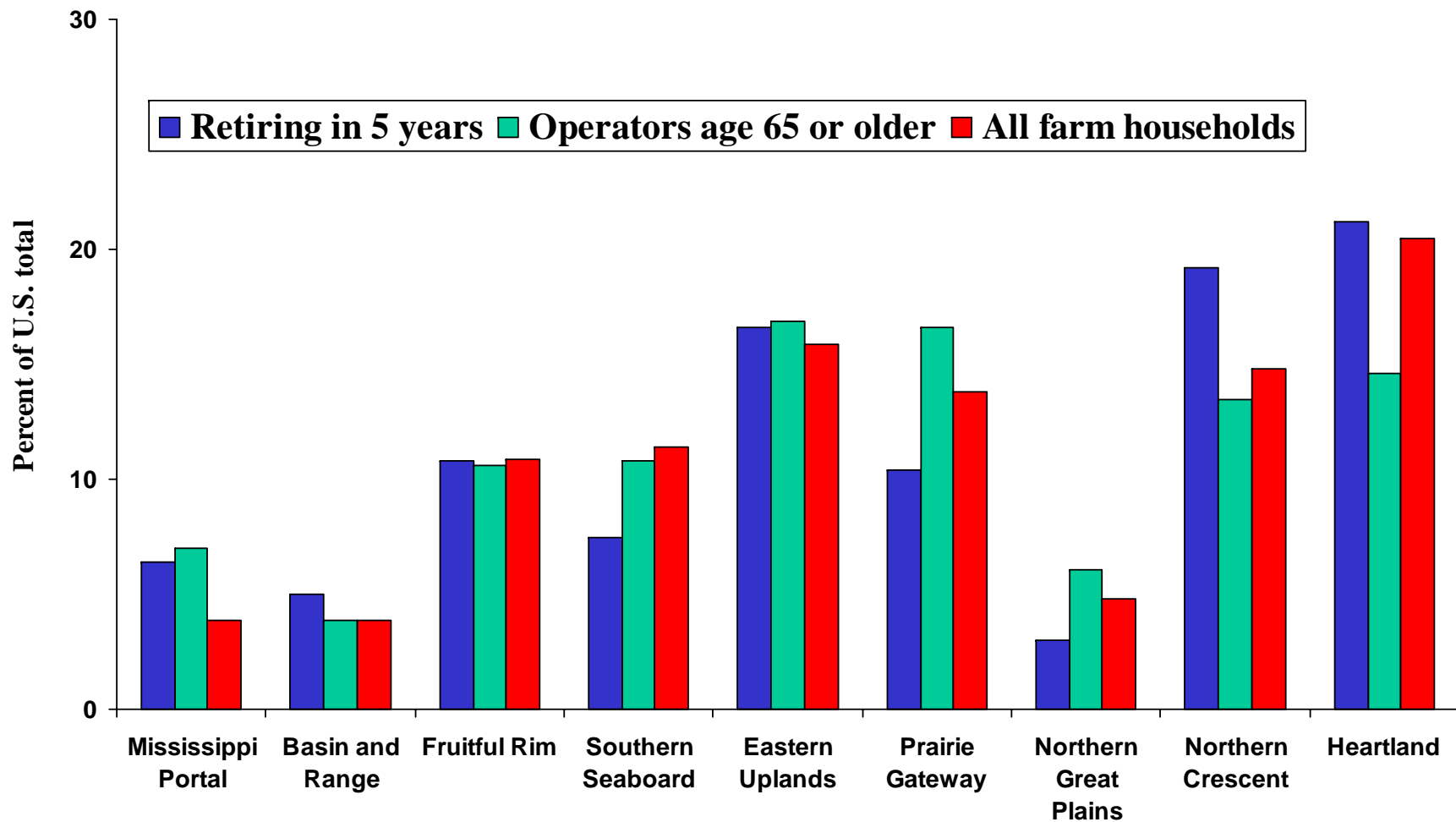


## ERS Resource Regions

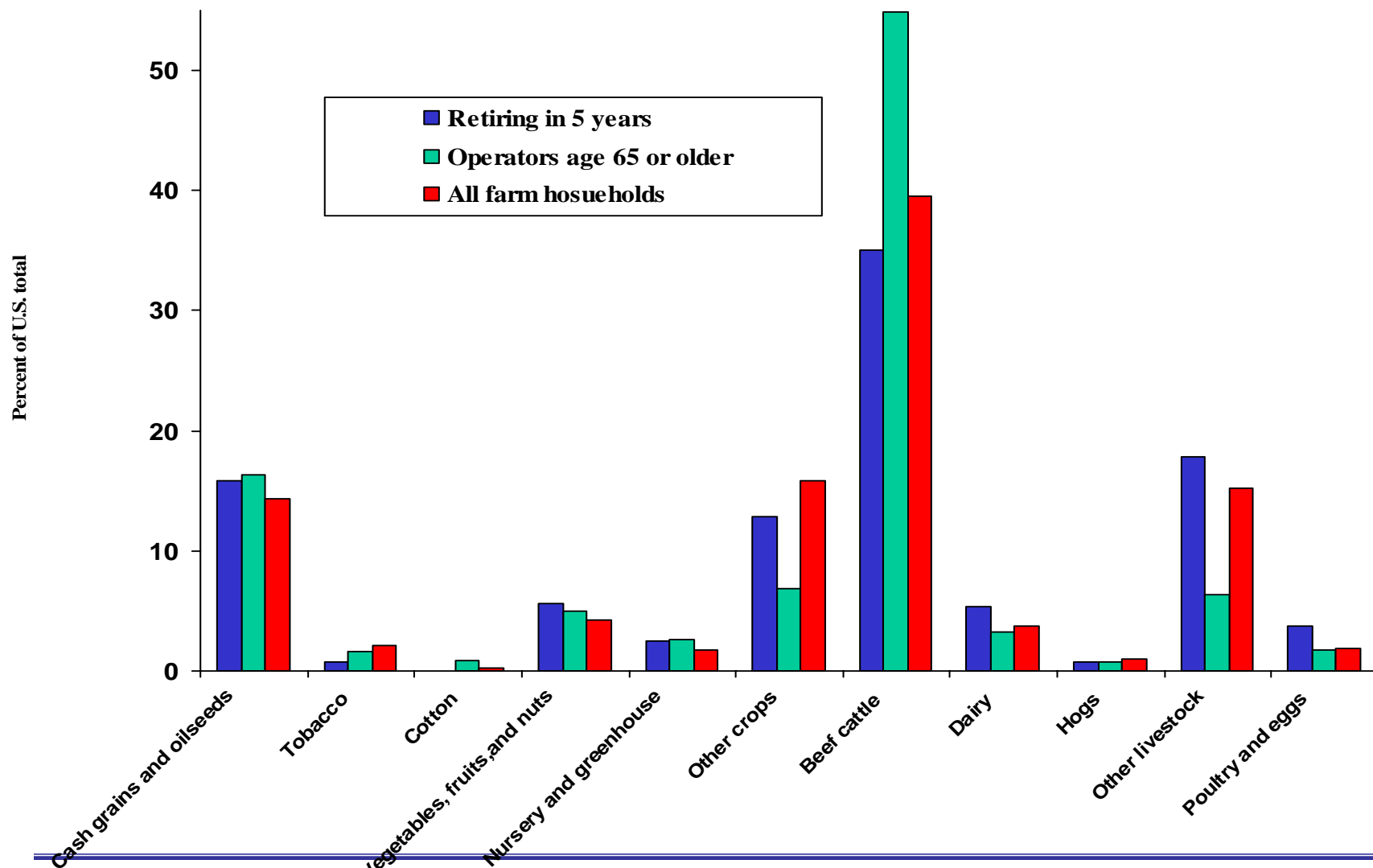




# Retiring farm households are located across all regions of the U.S.



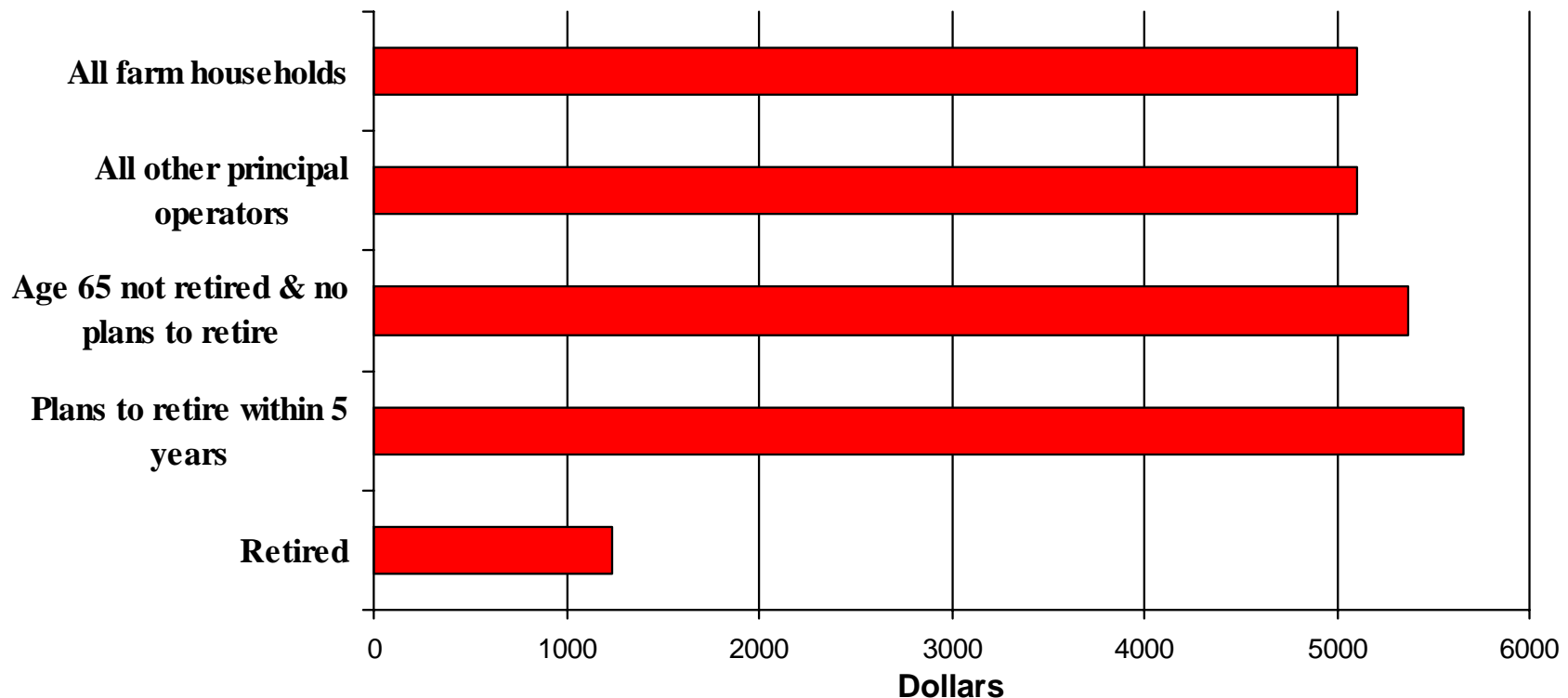
# Retiring farm households are predominantly engaged in livestock enterprises



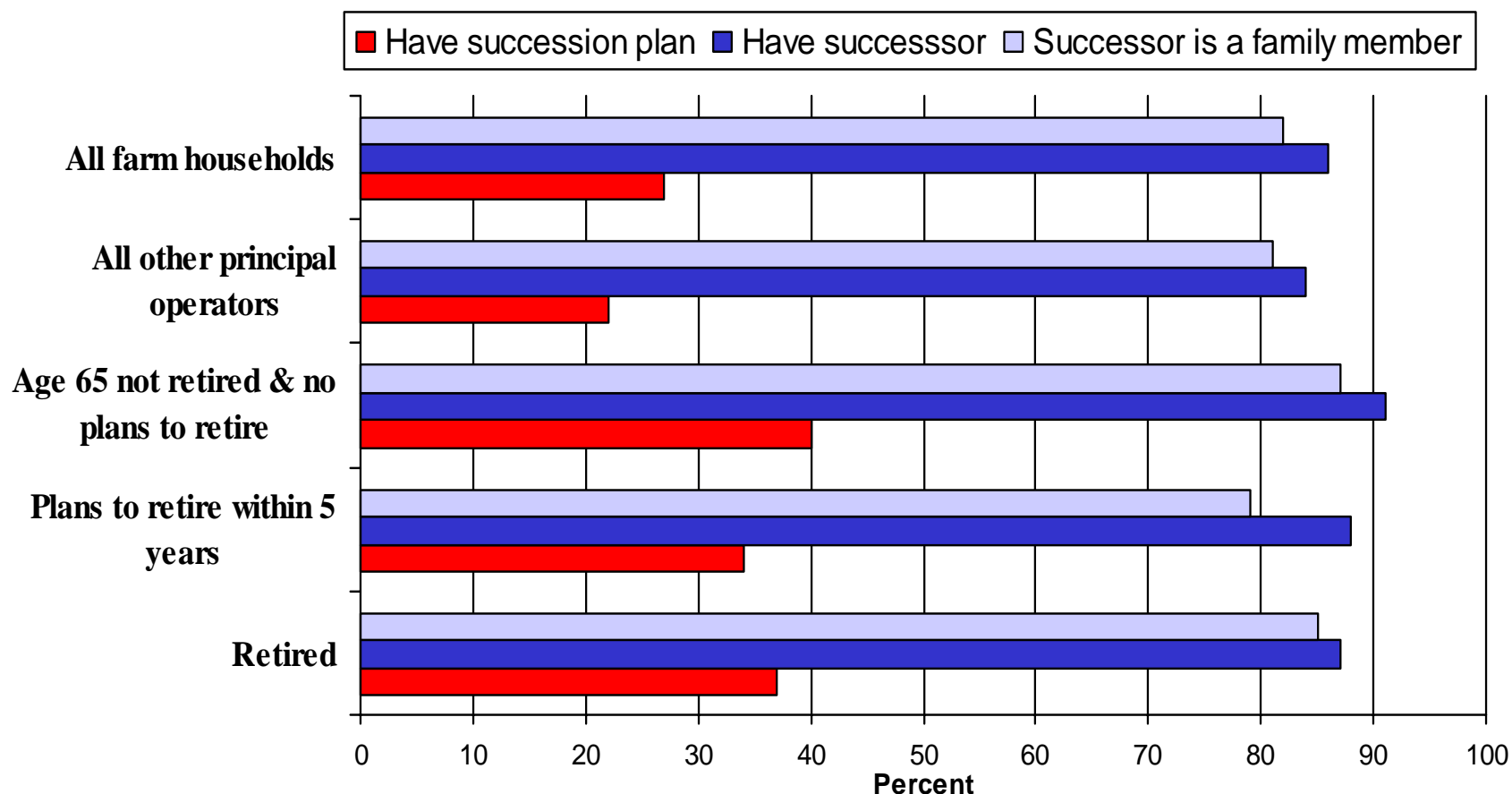
Source: 2003 ARMS/USDA.

USDA Outlook Forum 2005

# Retiring farm households receive significant government farm program payments

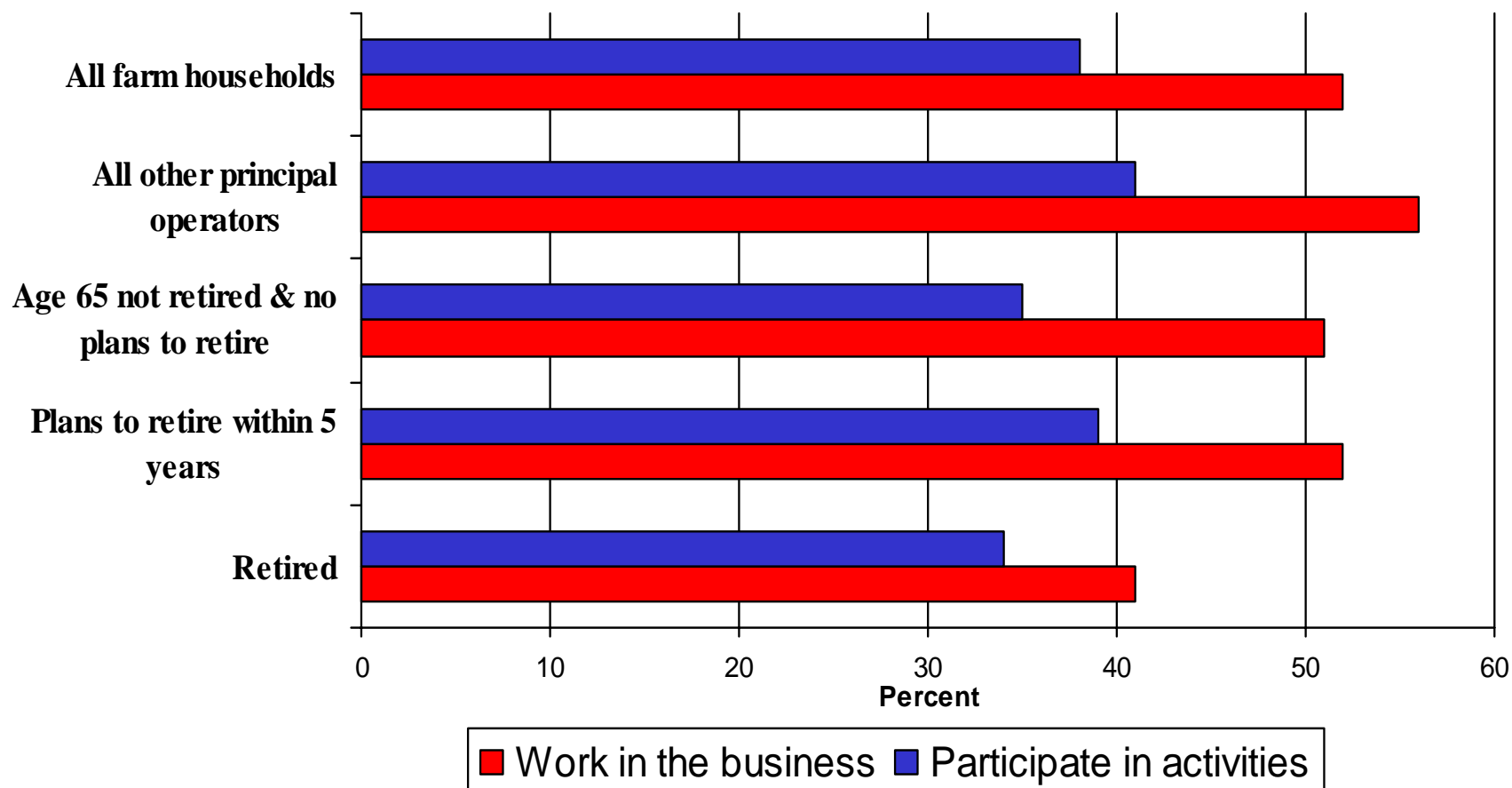


## Less than one-third of farm operators have a succession plan, retiring farm households have slightly higher

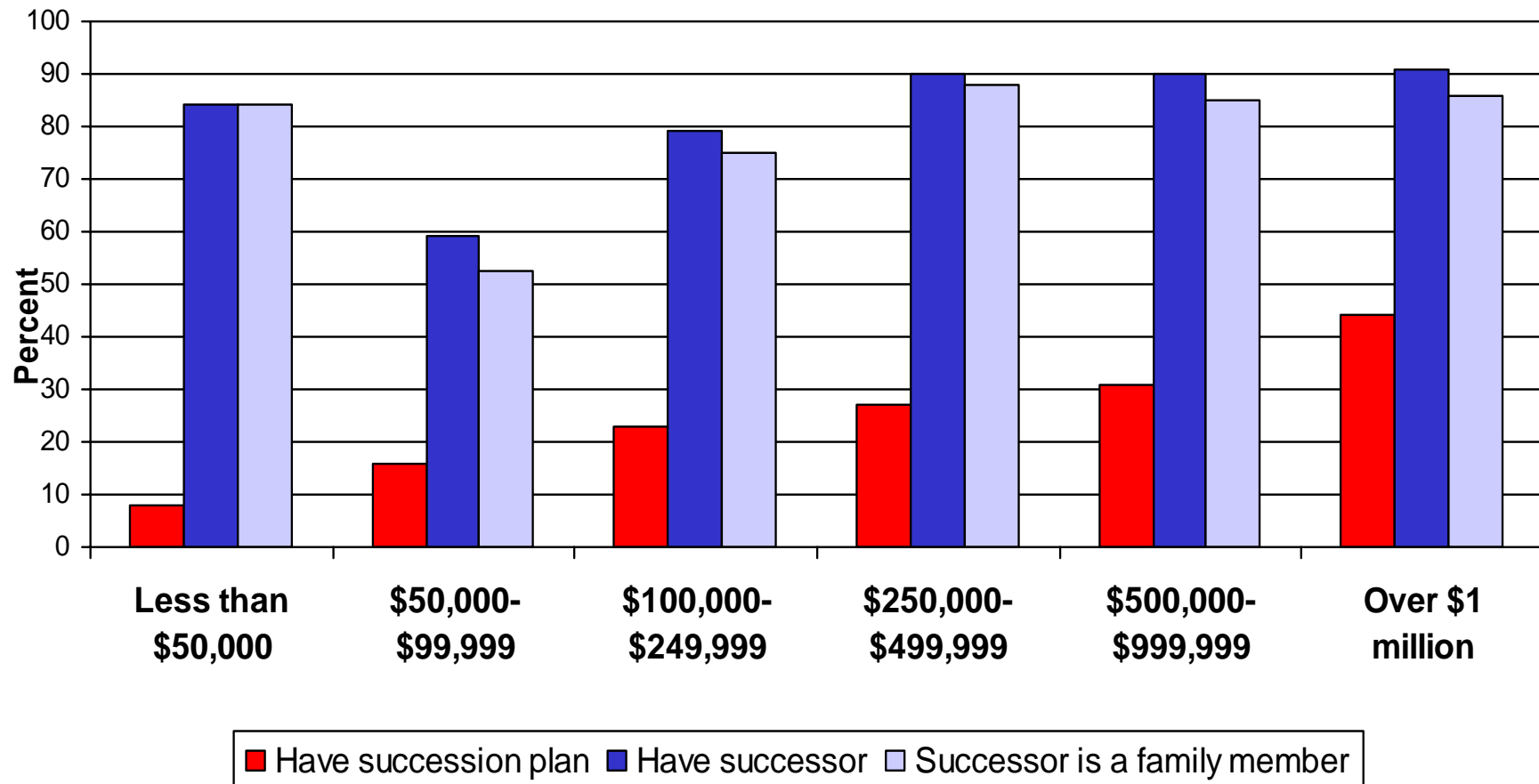


Of those who have succession plan, the share who have designated a successor and the share of those who are family members.

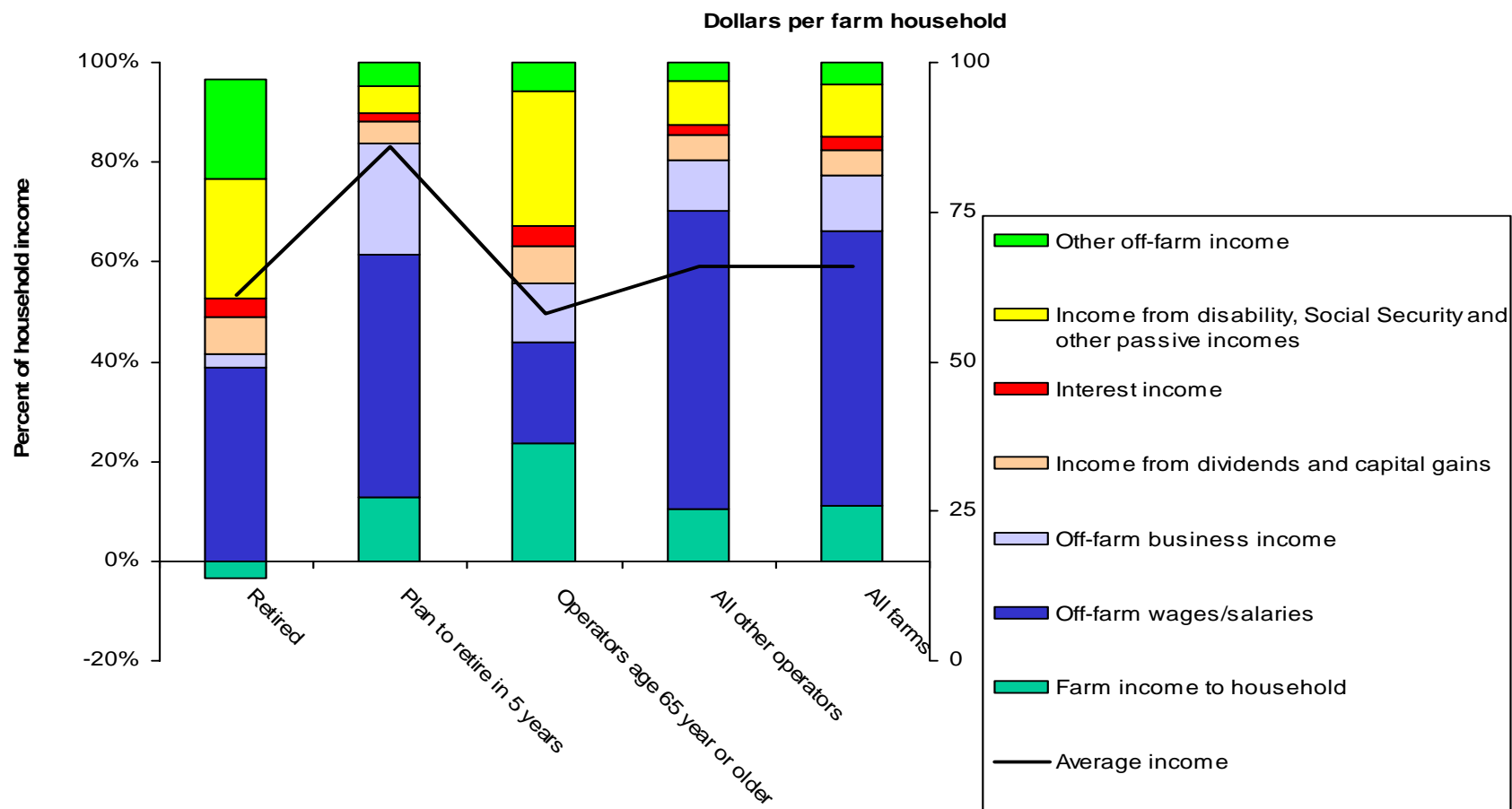
# Share of successors working in the business and handling management responsibilities varies



# Succession plans vary with the net worth of the household



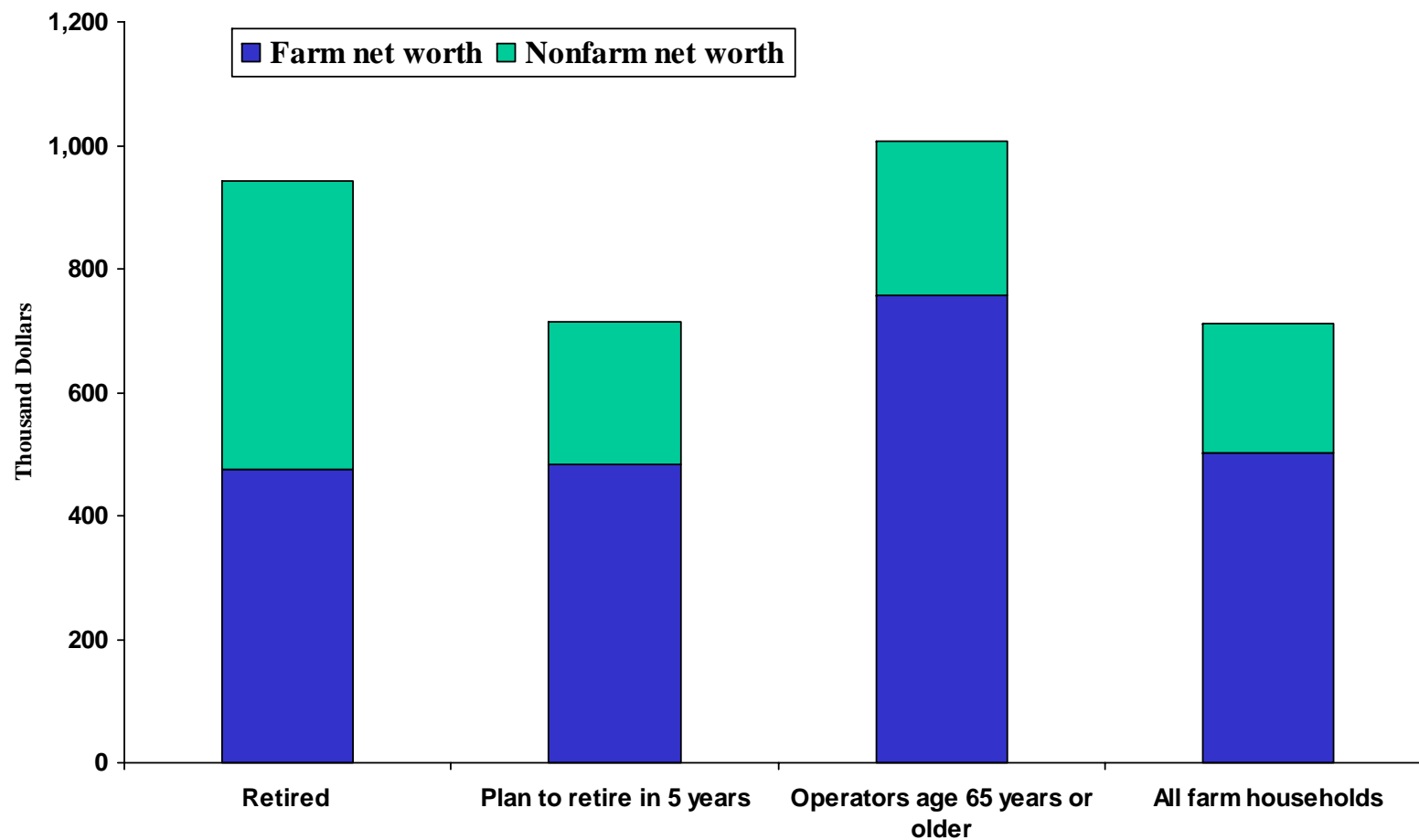
# Off-farm income is important to retired and retiring farm households



Source: 2003 ARMS/USDA.

USDA Outlook Forum 2005

# Retired and retiring farm households have significant nonfarm wealth

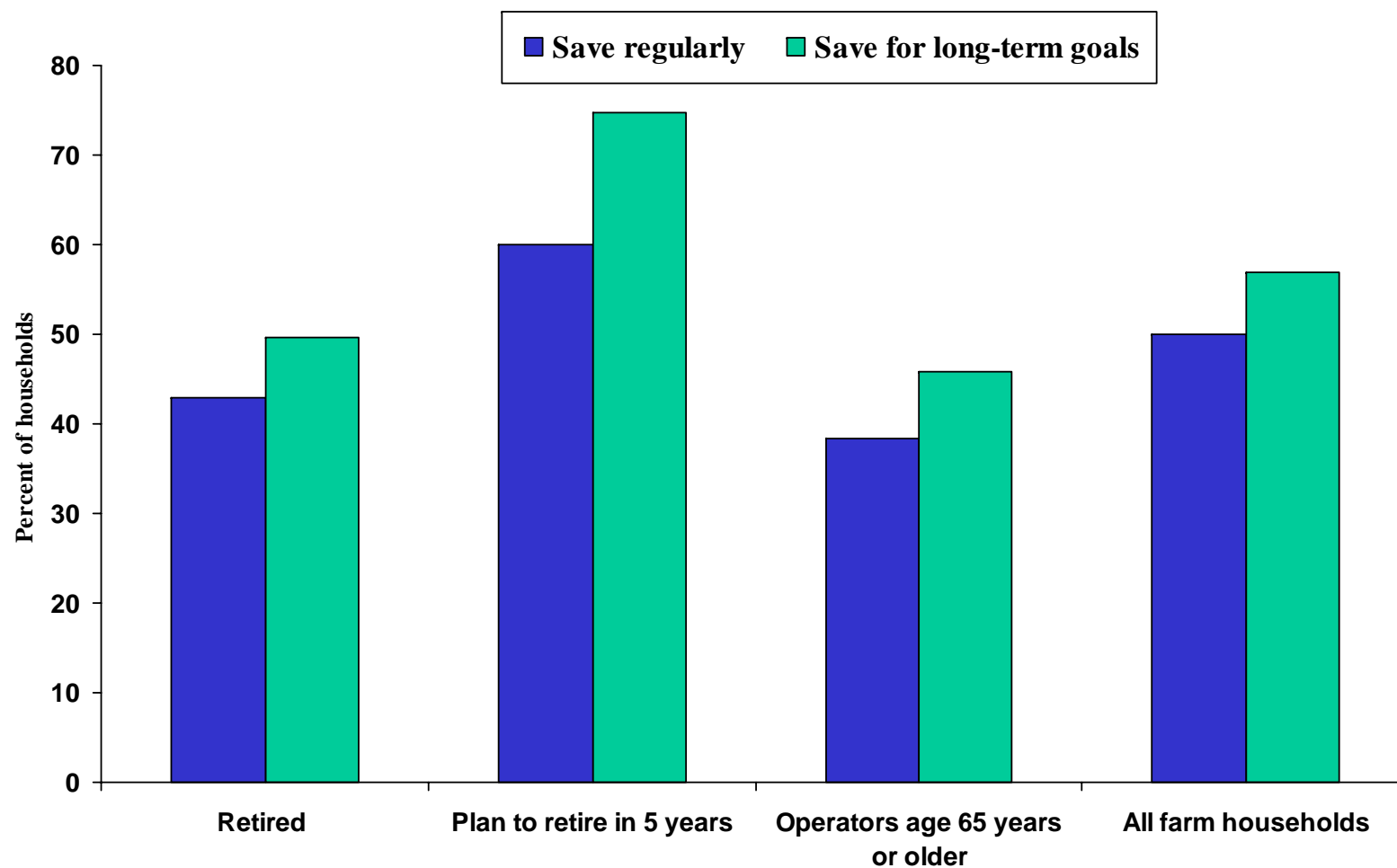


Source: 2003 ARMS/USDA.

USDA Outlook Forum 2005



# Farm households and particularly retiring farm households save regularly or for long-term goals



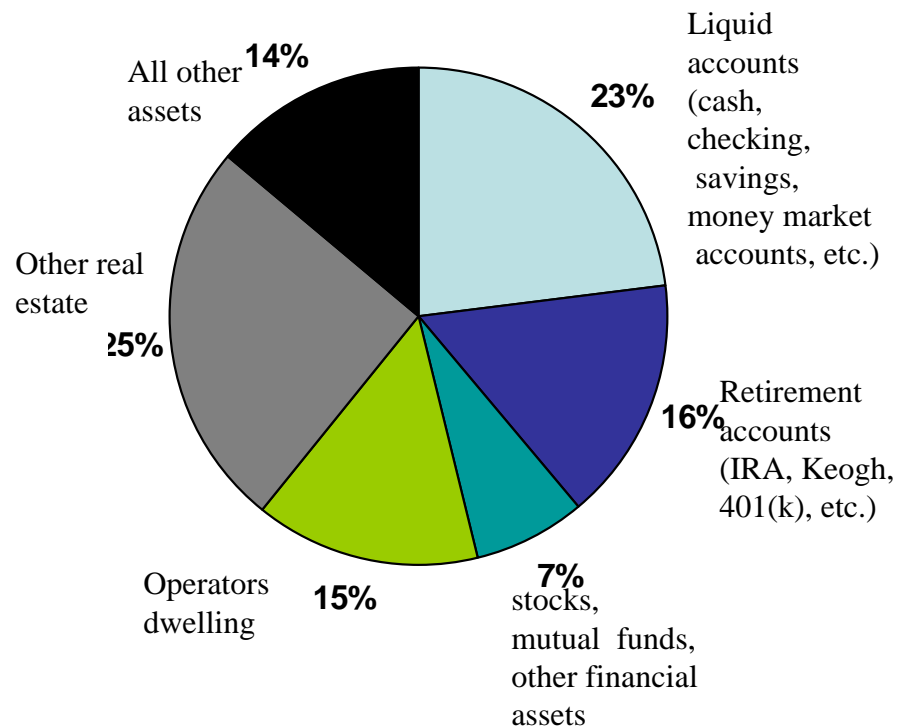
Source: 2003 ARMS/USDA.

USDA Outlook Forum 2005

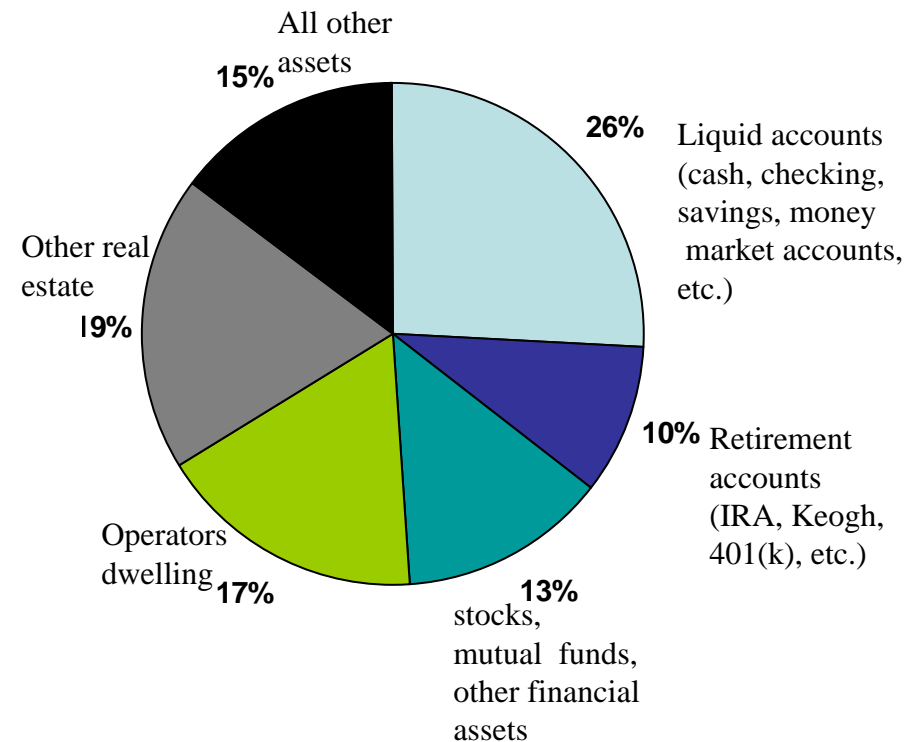
# Retiring and older farm households have diverse off-farm financial portfolios



**Farm households whose operator plans to retire in 5 years**  
(average nonfarm net worth \$231,255)



**Farm households whose operator is age 65 and no plans to retire**  
(average nonfarm net worth \$250,331)



Source: 2003 ARMS/USDA

## Summary

---



- ▶ Nationally about 7 percent of farm households indicate that they will retire in the next 5 years.
- ▶ Households with head who are retired, plan to retire or others age 65 or older represent about 20 percent of farm families.
- ▶ Relatively small percentage, 27 percent, of all farm operators indicated that they had a succession plan.
- ▶ Only one-third of the retiring farm households have succession plans.
- ▶ In most cases a successor is designated and most likely happens to be a family member.

## Summary



- 
- ▶ Farm households with operators planning to retire in the next 5 years:
    - are younger and derive majority of their income from off-farm sources and have the highest average income.
    - about 15 percent of these farm households own off-farm businesses.
    - specialize in beef cattle, a less labor-intensive enterprise.
    - are located principally in the Heartland, Northern Crescent, Eastern Uplands, and Fruitful Rim regions.
    - less likely to be living in poverty (nearly 10%) than the average farm household (13%).
    - have 32 percent of their wealth in nonfarm assets.
    - 60 percent of these save regularly and 75 percent save for long-term goals.
    - 46 percent of these households have IRAs.
-

# Summary

---



- ▶ Farm households with operators age 65 year or older:
    - are older and more experienced in farming.
    - derive their income from disability and social security (27%), farming (23%), off-farm sources (20%), and total household income is lower than the average farm household.
    - about 11 percent of these farm households own off-farm businesses.
    - specialize in beef cattle (55%), a less labor-intensive enterprise.
    - more likely to be living in poverty (18%) than the average farm or U.S. household (13%).
    - have 25 percent of their wealth in nonfarm assets.
    - 38 percent of these households save regularly and 46 percent save for long-term goals.
    - 25 percent of these households have IRAs.
-

## Conclusions

---



- ▶ The average household income of retiring (higher) operators age 65 or older (slightly lower) than the average U.S. household (\$59,067)
  - Further, the average wealth of retiring and operators age 65 or older is higher than the average of all U.S. households (\$396,000).
  - While the percentage of retiring farm families that have an IRA is smaller than all U.S. households they have farm wealth to support consumption in later life.
- ▶ With the combination of current income and wealth (farm and financial) they are in a position to meet their projected consumption needs in retirement.